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US-ROC ECONOMIC RELATIONSHIP: A BUSINESSMAN'S VIEW*

**AMERICAN CHAMBER OF COMMERCE IN
THE REPUBLIC OF CHINA**

A. INTRODUCTION

Since the signing of the Shanghai Communique in 1972, a great deal of attention has been given to the question of what benefits would be gained from improved relations between the United States and the People's Republic of China. Aside from the fundamental geopolitical advantage of keeping the USSR and the PRC from greater solidarity, there have been high expectations as to the eventual economic benefits which will accrue to both countries.

At first blush these benefits seem well worth achieving. Certainly very few of us would take issue with the goal of keeping two communist countries from joining forces against the U.S., or support the argument that we should continue to ignore the 850 million Chinese on the Mainland. But when it comes to the economic issues, we believe that these have not been adequately analyzed, and that they should be thoroughly assessed before any further steps are taken toward normalization with the PRC. In essence, we think that the U.S. Government has expected more gains than can be realized . . . but more importantly, we think it has totally ignored the potential losses.

For the past few years, the American Chamber of Commerce in the Republic of China has supported positions which favor the expansion of commercial and cultural relations between the U.S. and the PRC, provided this is not done at the expense of the Republic of China. Our position has echoed the recent resolution by a majority of the U.S. House of Representatives, which states "that the U.S. Government, while engaged in reducing tensions with the PRC, do nothing to compromise the freedom of the Republic of China and its 16 million people." Basically we believe that the long standing American relationship with the Chinese who have made Taiwan a flourishing example of economic and cultural cooperation should not be sacrificed for a political objective which does not give comparable reciprocity to American initiatives.

This position paper has been prepared by members of the American Chamber of Commerce in the Republic of China, an organization of U.S. business executives who manage some 220 U.S. invested corporations in Taiwan. The Chamber's prime objective is to enhance and protect American trade, investment and credit relations with the Republic of China.

B. U.S. ECONOMIC RELATIONS WITH THE TWO CHINAS

While the opening of U.S. commercial relations with the PRC began in an encouraging way and with great expectations, they still give no opportunities for normal commerce; even the cultural and tourist interchange has been unilaterally restricted by the PRC to minimum levels. The U.S. two-way trade with the PRC in 1975 declined to \$462 million (from \$922 million in 1974) while the U.S. did \$3.5 billion in two-way trade with Taiwan in 1975.

The PRC refuses to accept credits from foreign trading partners including the U.S. and has generally confined commercial contacts to the Canton Trade Fair. The PRC also refuses to permit American buying or selling offices to operate in the country and refuses to permit American banks to handle financial and trade transactions between the two countries.

In extreme contrast, the Republic of China on Taiwan has consistently offered full business reciprocity, investment opportunities and unlimited support to two-way commercial interchange, to a point where our two-way trade with them made Taiwan America's 13th largest trading partner in 1975. This created opportunities for thousands of export-related jobs in the United States. Also, U.S. investment as of July 1976 amounted to

\$476 million and has prospered in one of the most hospitable investment climates in the Asia-Pacific area. In addition, Taiwan has also opened its arms to American religious groups, scholars and tourists serving to maintain our long standing relationships with the Chinese people at a high level of compatibility and cooperation.

It could be argued that normalization of the political relationship should begin at least to remedy the lack of commercial and cultural reciprocity, but thus far this is not supported by the experiences of other countries which *do* have diplomatic relations with the PRC. It appears that reciprocity is not a 50-50 proposition with the PRC.

C. WHAT'S IN IT FOR THE U.S.?

Yet there still seems to be a compulsion to forego the tried-and-true relationship with the ROC in favor of the *hope* of great economic benefits from the PRC. And even more alarming, we observe a sense of urgency in the U.S. Government's desire to culminate normalization with the PRC "before it's too late." Admittedly, the public posture of the current Administration is low at present, no doubt due to the Presidential election campaign. But the stated goal is still "normalization" and we perceive that even though it is alleged that there is no time-table and no formula, there appears to be an academic and State Department groundswell (possibly amplified by press speculation) which is anxious to conclude an early agreement with the PRC. We believe this issue will surface rapidly once a new president is elected.

Therefore, it is essential that we analyze what the real economic benefits to the U.S. will be — or put more colloquially, *what's in it for the U.S.*? An analysis follows as to the prospects of improved US-PRC trade based on the assumed condition of diplomatic recognition.

D. WHAT'S THE REAL MARKET POTENTIAL WITH THE PRC?

When we evaluate the PRC's past buying policy we find that the potential market for U.S. products is limited to a few select product categories, that the purchases are non-recurrent, that the availability of a broad consumer market base may well be 40 to 50 years away, and that the emphasis is on self-sufficiency which exhibits itself in an interest in technology rather than in products. In addition, the fact that the PRC is a non-market economy will affect the ability of U.S. exporters to sell their products on a

competitive and reciprocal basis; there are many import restrictions levied on a variety of products which limit the current as well as eventual market potential. Furthermore, the absence of free choice by the consumer will restrict the ability of U.S. exporters to develop new markets for their products. Brief comments are given below on the three most important categories:

Industrial Products

In line with former Premier Chou En-lai's report to the 4th National People's Congress, one of the PRC goals is to build "an independent and relatively comprehensive industrial and economic system by 1980." Therefore it is reasonable to expect that the PRC will be looking abroad for equipment during the next few years. But history has shown that they are more interested in technology than in equipment, with some limited exceptions to meet their urgent needs where either their capacity or technical know-how is limited. Some of the examples are the purchases of jet aircraft, fertilizer plants, and deep-well oil drilling platforms. In the case of the aircraft sale, the PRC technology is obviously not at a comparable level to the U.S., and purchases of this type are expected to continue. As for the fertilizer plants, this is a good example of a dire need to supplement their capacity on a one-time basis. The same holds true for the oil drilling platforms; after purchasing several from Japan, France and Norway, the PRC is now manufacturing their own.

Consumer Products

Even though the PRC is a rich land with numerous natural resources, many areas are still uninhabited and thus have little or no infrastructure. In short, its economic development may well be some 40 to 50 years away from where the needs of its people can be matched to the richness of its resources. Therefore, the opportunity for selling U.S. consumer goods appears to be at least two generations away. A good example is provided by the Japanese: to date they have not managed to sell any consumer products to the PRC.

Agricultural Products

As for a sustained favorable outlook for agricultural products, it is not expected that the PRC will remain a large importer of foodstuffs for long. Less than 20% of its total land surface is now

cultivated, which is quite low compared to its potential arable acreage. In addition the current per acre yield is very low due to a lack of fertilizer and pesticides as well as a limited irrigation system. Therefore, the capability of the PRC to increase its agricultural output is substantial, large enough to be a threat as an eventual competitor to the U.S. in their surplus crop years.

After analyzing the economic realities, the prospects of significantly increasing trade between the U.S. and the PRC are certainly not optimistic. So the question remains, *What's in it for the U.S.*, particularly if it is to be accomplished at the expense of a valued trading partner, the Republic of China?

E. DISADVANTAGES TO THE U.S.

Now let's turn our attention to what the potential loss would be to our economic relations with the Republic of China. There are basically two scenarios; the first involves de-facto derecognition of the ROC without regard to how future trade, investment and credit relations would be handled. In this first scenario we would also *assume* the abrogation of the 1954 Mutual Defense Treaty, inasmuch as we understand that it may not be possible to have a Defense Treaty with a country with which we have no diplomatic relations.

Without sounding ominous and without making any predictions as to what the PRC and ROC might do militarily, our feeling is that we in Taiwan would experience serious difficulties in doing business. There could be a degree of social unrest which might vent itself on American companies. Further investment would stop, and capital flight would be probable. In short, sudden diplomatic derecognition without any redress does not provide a positive outlook for U.S. economic interests. (Frankly speaking, it seems inconceivable and unrealistic that such a scenario would take place; in all our 200 year history there is no precedence for abandoning a trusted ally and valued trading partner in the way just described.)

A second scenario involves "normalization" with the PRC but not under the three conditions outlined by the PRC (diplomatic recognition, U.S. troop withdrawal, and abrogation of the Mutual Defense Treaty). We particularly believe that the third condition, that of *abrogation of the Mutual Defense Treaty*, is *totally unacceptable* to the protection of American economic interests with the Republic of China. In short, the Mutual Defense Treaty is central to our economic survival on Taiwan. Without offering any

new "formula" for solution, we will state a number of additional issues which need to be resolved before any further steps are taken toward normalization with the PRC. We hope that the U.S. Government is already working on these areas. It is critically important that solutions be found to these problems.

F. ISSUES WHICH NEED TO BE RESOLVED

1. Eximbank Loans and Guarantees

As of December 1975, the ROC had loans and guarantees outstanding in the amount of more than US\$1.7 billion, thus making it the Eximbank's largest customer after Brazil. What happens to these funds and will Taiwan be eligible for loans in the future?

2. U.S. Banks on Taiwan

As of July 1976, there were eight U.S. banks represented on Taiwan. What will be their status after normalization? Will they be allowed to continue their operations in Taiwan?

3. U.S. Investment on Taiwan

As of July 1976, there was some US\$476 million worth of U.S. investment on Taiwan. This investment is distributed across the range of the country's industrial projects and infrastructure. A series of questions arise which are currently adequately answered under the present Friendship, Commerce and Navigation (FCN) Treaty of 1948, but which will need review if the FCN Treaty were not to be in force.

Will this investment have national treatment, meaning that U.S. investment will be subject to the same laws and enjoy the same rights as do domestic enterprises of the host country?

In the event of expropriation or nationalization for a public purpose, will it be done without discrimination and accompanied by prompt, adequate and effective compensation?

Will compensation under expropriation amount to the market value immediately before the expropriation itself or before the host government's official announcement that expropriation will occur?

Will there be international arbitration in the event of a dispute between the U.S. investor and the host country?

4. Overseas Private Insurance Company (OPIC) Coverage

As of July 1976, the maximum contract value of OPIC insurance was \$132 million for inconvertibility, \$153 million for expropriation, and \$137 million for war. Could additional coverage be obtained?

5. Textile Quotas to the U.S.

Taiwan's textile exports to the U.S. fall under the 1974 Multi-Fibre Agreement, the international framework for voluntary bilateral restraints between textile exporters and importers. On the other hand, the PRC has been unwilling to subscribe to any voluntary trade restraints, even with countries with which it has diplomatic relations. What happens to Chinese textile exports to the U.S.?

6. U.S. Agricultural Exports to Taiwan

In 1975, the U.S. exported some \$420 million worth of agricultural products to Taiwan. Most of these exports are conducted under several long-range agreements negotiated between the U.S. and the ROC. What happens to these agreements?

7. Nuclear Fuel for Taiwan's Nuclear Power Plants

Currently two nuclear power plants are under construction in Taiwan, and four more are planned. Under what conditions will Taiwan be able to obtain nuclear fuels for these plants?

8. Generalized Preference Scheme

Will Taiwan still be eligible for duty reductions under the Generalized Preference Scheme?

9. Most Favored Nation Treatment

The ROC currently has MFN treatment, but the PRC does not. Before MFN can be granted by the U.S. President to the PRC, the Trade Act of 1974 requires that a bilateral trade agreement be negotiated first, and then be approved by the U.S. Congress. Part and parcel of Congressional approval is the settlement of frozen assets, which has been an extremely thorny issue thus far. Anyway, what happens to the ROC's Most Favored Nation standing?

10. Concerns for U.S. Security

We do not profess to be experts in international security matters, but as U.S. citizens, we are vitally concerned with the security of our country. We feel it important that the U.S. maintain a strong military presence in the area. Breaking our faith with the people of Taiwan would only weaken us in the eyes of the other nations of the area, and would strengthen the position of the Communists.

We find it ironic that we seem to be having trouble over the use of our bases in the Philippines, whereas the ROC no doubt would cooperate with us fully in our objective of having a strong forward defense in the Western Pacific Island chain.

The foregoing listing represents only a sampling of the issues which need to be resolved before any further steps are taken toward normalization with the PRC.

G. CONCLUSION

We do not disagree with the objectives of keeping the two Communist countries from joining forces against the U.S., but we feel that this objective *can be accomplished through skillful negotiating, without sacrificing the people of the ROC or the U.S. position in the Far East.* We believe that the PRC has more to gain from normalization of relations between the two countries than does the U.S., and that the U.S. should negotiate more from a position of strength. It appears that a group within the U.S. Government is so intent with normalizing relations with the PRC "before it's too late," that they are proposing giving in to the demands of the PRC in the hope that they will agree to normalization. We should have learned by now that this is no way to negotiate with the Communists.

The PRC has stated three demands in the Shanghai Communique. We believe that the U.S. negotiators should firmly state two conditions. One should be to keep the Mutual Defense Treaty with the ROC, and the second should be to protect U.S. economic interests with Taiwan. If these two conditions are not met, then it is our judgment that normalization of relations is not worth the price.

Dr. Sigur thanked Mr. Simon for his very excellent summarization of the view of the American business community in

Taiwan, which represented, of course, some of the largest business interests in this country. He thought that it was important that we should take seriously what they said. He then invited Dr. Yuan-li Wu of Hoover Institution to present the paper on the economic impact of US-PRC relations on the ROC; this paper was prepared jointly by Dr. Wu and Dr. K. C. Yeh. He also expressed his regret that one of the co-authors of the paper, Dr. K. C. Yeh of The Rand Corporation, could not come because of his overseas trip.

Drs. Wu and Yeh's paper discussed the economic impact of United States-People's Republic of China relations on the Republic of China. Their purpose was to examine factors contributing to the rapid expansion of exports in Taiwan and to Taiwan's economic growth and to determine how these factors would be affected by the alternatives for changing relations with the ROC.

Taiwanese expansion in exports is correlated with United States direct investment. This is what Dr. Wu termed a linear correlation, that is, exports from Taiwan come from United States and Japanese manufacturers. Dr. Wu stated that for continued export growth there must be continued investment and continued increase in importation by the United States. However, continued export growth depends on the political climate. Investors expect stability, and the best way to eliminate uncertainties is for the United States to make clear that present relations will continue.

Dr. Wu identified three alternatives: (1) continuation of the status quo, (2) diplomatic recognition of Peking and abandonment of the Republic of China, and (3) diplomatic recognition of both the People's Republic of China and the Republic of China. Dr. Wu prefers the third alternative, the so-called German plan.

Dr. Wu stated that if the legal status of Taiwan is questioned, a situation would arise where problems are created for businessmen by other countries. Some of those problems identified were threats to curtail freedom of access to transportation and resources, legal redress, and sea rights. Such problems would require private intervention and Dr. Wu questioned whether anyone would be willing to assist. Dr. Wu suggested that the "open door" should swing both ways.

[The following is the text of the paper prepared by Dr. Wu and Dr. Yeh.]
